

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
D/B/A MYRTUE MEDICAL CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2012 AND 2011

MYRTUE MEDICAL CENTER

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MYRTUE MEDICAL CENTER
Officials
June 30, 2012

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Frank Powers, Chairperson	Defiance, Iowa	2014
Carmen Hosack, Vice-Chairperson	Harlan, Iowa	2014
Larry Miller, Secretary/Treasurer	Harlan, Iowa	2012
Judy Tamm	Harlan, Iowa	2012
Don Holdsworth	Irwin, Iowa	2012
Allan Hjelle	Elk Horn, Iowa	2016
Cheryl Chipman	Harlan, Iowa	2016
<u>Chief Executive Officer:</u>		
Barry Jacobsen	Portsmouth, Iowa	
<u>Chief Financial Officer:</u>		
N. Sue Blake (Resigned September 7, 2012)	Tekamah, Nebraska	
<u>Chief Nursing Executive:</u>		
Karen Buman	Harlan, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

We have audited the accompanying balance sheets of Myrtue Medical Center as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements do not include financial data for the Medical Center's legally separate component unit, Shelby County Medical Corporation. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the Medical Center unless the Medical Center also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Medical Center has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues and expenses of the reporting entity have been reported differently by amounts as described in Note A.

In our opinion, except for the effects of omitting the blended component unit, as discussed previously, the financial statements referred to above present fairly, in all material respects, the financial position of the Myrtue Medical Center reporting entity as of June 30, 2012 and 2011 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Myrtue Medical Center as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Myrtue Medical Center

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2012 on our consideration of Myrtue Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 4 through 4e and on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Myrtue Medical Center's basic financial statements. The supplementary information on pages 1 and 24 through 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Bell, Kyburz & Co. P.C.

Atlantic, Iowa
October 12, 2012



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MYRTUE MEDICAL CENTER Management's Discussion and Analysis

Our discussion and analysis of Myrtue Medical Center's (Medical Center's) financial performance provides an overview of the Medical Center's financial activity for the fiscal years ended June 30, 2012, 2011, and 2010. Please read it in conjunction with the Medical Center's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The 2012 fiscal year was the sixth full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2012 the Medical Center reported a decrease in Operating Income of \$183,000 when compared to the previous year. In 2011, the Medical Center reported a decrease in Operating Income of \$556,000 compared to the previous year.

Non-operating revenues of \$724,000 represented a \$28,000 decrease from 2011.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Medical Center finances begins on page 4a. One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statements of Revenues and Expenses, and Changes in Net Assets report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net assets and changes to them. You can think of the Medical Center's net assets - the difference between assets and liabilities - as one way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

CLINIC LOCATIONS

1220 Chatburn Ave
Harlan, IA 51537
712.755.5130

301 East
Shelby, IA 51570
712.544.2511

510 North Elm
Avoca, IA 51521
712.343.6455

4022 North Main
Elk Horn, IA 51531
712.764.4642

1303 Garfield Ave
Harlan, IA 51537
712.755.5056

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE MEDICAL CENTER'S NET ASSETS

The Medical Center's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5.

Table 1: Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 11,947,105	\$ 10,888,708	\$ 9,761,096
Capital assets, net	34,126,849	24,440,659	23,381,195
Other noncurrent assets	<u>2,889,225</u>	<u>8,655,603</u>	<u>10,618,362</u>
Total assets	<u>\$ 48,963,179</u>	<u>\$ 43,984,970</u>	<u>\$ 43,760,653</u>
Liabilities:			
Long-term debt outstanding	\$ 5,361,290	\$ 2,263,700	\$ 2,520,560
Other current and noncurrent liabilities	<u>4,789,368</u>	<u>4,219,851</u>	<u>5,232,132</u>
Total liabilities	<u>\$ 10,150,658</u>	<u>\$ 6,483,551</u>	<u>\$ 7,752,692</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 28,366,866	\$ 22,121,581	\$ 19,981,938
Restricted expendable	534,479	106,817	84,058
Unrestricted	<u>9,911,176</u>	<u>15,273,021</u>	<u>15,941,965</u>
	<u>\$ 38,812,521</u>	<u>\$ 37,501,419</u>	<u>\$ 36,007,961</u>

Current assets increased by \$1,058,000 from the previous year. Operating cash decreased by \$2,166,000 from the previous year. Net accounts receivable increased by \$640,000 from the previous year as well. The reduction in operating cash is a reflection of the construction project currently in process and the timing of funding advances on the 2011 Capital Loan Notes used to fund the project.

Capital assets, net have increased by \$9,686,000 in the past year and is also due to the current Medical Center construction project.

Other noncurrent assets have declined by \$5,766,000 due to the redemption of certificates of deposit in the past year to help fund the construction project

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

Long term debt has increased by \$3,097,000 as a result of the issuance of the 2011 Capital Revenue Notes that were partially drawn during the 2012 fiscal year to cover costs of the construction project.

OPERATING RESULTS AND CHANGES IN THE MEDICAL CENTER'S NET ASSETS

In 2012, the Medical Center's net assets increased by \$1,311,000 or 3.5 percent, as shown in Table 2. Net assets increased by \$1,493,000 or 4.1 percent in 2011.

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenues:			
Net patient service revenue	\$ 30,755,140	\$ 29,022,979	\$ 27,418,455
Other operating revenues	<u>249,244</u>	<u>255,939</u>	<u>279,282</u>
Total operating revenues	31,004,384	29,278,918	27,697,737
Operating Expenses:			
Salaries and benefits	16,906,705	15,338,345	14,054,997
Professional fees	5,456,779	5,303,012	4,921,155
Depreciation	1,654,536	1,603,489	1,274,732
Other operating expenses	<u>7,132,757</u>	<u>6,997,410</u>	<u>6,854,016</u>
Total operating expenses	<u>31,150,777</u>	<u>29,242,256</u>	<u>27,104,900</u>
Operating income (loss)	(146,393)	36,662	592,837
Nonoperating Revenues and Expenses:			
County taxes	727,399	638,874	596,609
Investment income	73,970	138,414	284,860
Noncapital grants and contributions	35,699	33,982	47,480
Other nonoperating revenues and expenses, net	<u>(113,424)</u>	<u>(59,188)</u>	<u>(39,730)</u>
Nonoperating revenues (expenses), net	<u>723,644</u>	<u>752,082</u>	<u>889,219</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions, and Endowments	577,251	788,744	1,482,056
Grants, Contributions, and Endowments:			
Capital grants and contributions	<u>733,851</u>	<u>704,714</u>	<u>1,744,598</u>
Excess of Revenues over Expenses	1,311,102	1,493,458	3,226,654
Net Assets Beginning of Year	<u>37,501,419</u>	<u>36,007,961</u>	<u>32,781,307</u>
Net Assets End of Year	<u>\$ 38,812,521</u>	<u>\$ 37,501,419</u>	<u>\$ 36,007,961</u>

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Medical Center's net assets is its operating income- generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2011, the Medical Center reported a positive operating income consistent with the Medical Center's previous two decades. In 2012 the Medical Center had a loss from operations of \$146,393.

The primary components of the operating income are:

An increase in net patient service revenue of \$1,732,000, a 6.0 percent increase, in 2012 compared to an increase of \$1,605,000 or 5.9 percent in net revenue in 2011.

The increase in salary and benefit costs for the Medical Center's employees was \$1,568,000, a 10.2 percent increase, in 2012 compared to an increase of \$1,283,000 or 9.1 percent in 2011.

An increase in professional fee costs of \$154,000, a 2.9 percent increase, in 2012 compared to an increase of \$382,000 or 7.8 percent in 2011.

Other operating costs increased by \$135,000, a 1.9 percent increase, in 2012 compared to an increase of \$143,000 or 2.1 percent in 2011.

Overall expenses increased 6.5 percent or \$1,909,000 in 2012 compared to an increase of 7.9 percent or \$2,137,000 in 2011.

The current shortage of professional caregivers and technologists continues to drive up some salary costs. The Medical Center must keep pace with the industry to compete for the highly sought after professionals. The advent of new technology and medicines requires additional capital and operating expense to provide current standard of care for our patients. The Medical Center works closely with its purchasing partner VHA Inc. to purchase medicines and supplies at the most economical rate possible for an organization of our size. The Medical Center provides health insurance to their employees through a self-funded plan. In 2012, claim experience increased significantly which resulted in an increase in health insurance costs to the Medical Center of \$627,000 or 49.7%.

The Medical Center routinely provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Medical Center when it was established in 1954. The level of services provided to these patients decreased from \$640,990 in 2011 to \$482,146 in 2012. However the Medical Center did see an increase in bad debts expense from \$844,000 in 2011 to \$1,260,000 in 2012.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Medical Center and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1. Variation in the revenue is a result of changing valuations and actual tax collection for the year. The Medical Center's investment income has declined due to significant drops in interest rates as well as a reduction in investment reserves used to fund the construction project.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

CONTRIBUTIONS AND ENDOWMENTS

During the 2007 fiscal year, the Medical Center started a fundraising campaign to build a \$10 million wellness center. The Medical Center has obtained pledges of approximately \$7.2 million dollars which includes \$566,000 in donations received during the 2012 fiscal year.

THE MEDICAL CENTER'S CASH FLOWS

The purpose of the statement of cash flows is to show the readers where cash was generated and how it was spent on a cash basis. The 2012 net cash provided by operating activities was \$837,000. In 2011, net cash provided by operating activities was \$792,000.

Net cash used in capital and related financing activities in 2012 was \$7,244,000, mainly due to the Medical Center's expansion and renovation project. In 2011, net cash used in capital and related financing activities was \$3,077,000.

Cash flow provided by investing activities was \$3,536,000 in 2012. In 2011, net cash provided by investing activities was \$3,190,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2012, the Medical Center had \$34.1 million invested in capital assets, net of accumulated depreciation, as detailed in Note H to the financial statements. During 2012, the Medical Center spent \$11,366,000 on land, equipment and building improvements, a large portion of which was due to the Medical Center's expansion and renovation project. In 2011, \$2,662,000 was spent on land, equipment, and building improvements.

Debt:

In 2010 the Medical Center secured a loan for \$2.5 million to finish construction on its wellness center. The loan is secured by revenues of the Medical Center and is payable over 15 years.

In 2011, the Medical Center issued \$10,000,000 Capital Revenue Notes to fund the current Medical Center expansion and renovation project. As of June 30, 2012, \$3,264,390 has been drawn on that note.

BUDGETARY HIGHLIGHTS

The official county budget of the Medical Center for the year ended June 30, 2012 was prepared on a modified accrual basis. As indicated on page 22, actual expenditures were approximately \$2,216,000 lower than budgeted due to an unexpected decrease in volume of inpatient services provided and lower than expected increase in outpatient services.

OTHER ECONOMIC FACTORS

The Medical Center is a rural hospital in west central Iowa. The Medicare program represents about 65% of the revenues the Medical Center receives, and represents the greatest risk to our revenues. Payment changes and revamping of the Program by Congress can have a much larger effect on the Medical Center due to its high percentage of Medicare patients.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

The Medical Center has been designated as a Critical Access Hospital. This designation has resulted in Medicare and Medicaid paying 101% of defined costs for services provided to eligible patients, thereby increasing reimbursement.

The Medical Center's rural health clinics in Harlan, Avoca, Shelby, and Elk Horn, Iowa also receive cost-based reimbursement from Medicare and Medicaid, which has substantially increased reimbursement to the clinics.

CONTACTING THE MEDICAL CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Myrtue Medical Center, 1213 Garfield Avenue, Harlan, Iowa 51537.

* * *

MYRTUE MEDICAL CENTER
Balance Sheets
June 30,

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 100,410	\$ 2,266,625
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$3,296,000 in 2012, \$2,640,000 in 2011)	7,354,012	6,714,210
Other receivables	87,148	89,824
Related organization receivables	218,365	122,448
Inventory	163,864	194,074
Prepaid expense	323,556	299,496
Succeeding year property tax receivable	742,200	678,500
Internally designated assets	<u>2,957,550</u>	<u>523,531</u>
Total current assets	11,947,105	10,888,708
Designated and Restricted Assets:		
Internally designated assets	4,417,165	8,285,370
Restricted assets	<u>846,999</u>	<u>460,869</u>
	5,264,164	8,746,239
Less amounts required to meet current liabilities	<u>2,957,550</u>	<u>523,531</u>
	2,306,614	8,222,708
Capital Assets:		
Depreciable capital assets, net	20,493,056	21,389,331
Non-depreciable capital assets	<u>13,633,793</u>	<u>3,051,328</u>
	34,126,849	24,440,659
Other Assets:		
Notes receivable	28,909	35,035
Deferred costs	124,104	9,906
Other	<u>429,598</u>	<u>387,954</u>
	582,611	432,895
Total assets	<u>\$ 48,963,179</u>	<u>\$ 43,984,970</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 2,151,643	\$ 166,800
Accounts payable	1,478,844	922,322
Accrued employee compensation	1,109,011	1,137,427
Payroll taxes withheld and accrued	286,832	135,157
Accrued interest	800	800
Estimated third-party payor settlements	682,000	842,000
Other current liabilities	177,161	149,593
Deferred revenue, current	146,948	136,996
Deferred revenue for succeeding year property tax receivable	<u>742,200</u>	<u>678,500</u>
Total current liabilities	6,775,439	4,169,595
Long-Term Debt, less current maturities	3,209,647	2,096,900
Deferred Revenue	<u>165,572</u>	<u>217,056</u>
Total liabilities	10,150,658	6,483,551
Net Assets:		
Invested in capital assets, net of related debt	28,366,866	22,121,581
Restricted expendable	534,479	106,817
Unrestricted	<u>9,911,176</u>	<u>15,273,021</u>
Total net assets	<u>38,812,521</u>	<u>37,501,419</u>
 Total liabilities and net assets	 <u>\$ 48,963,179</u>	 <u>\$ 43,984,970</u>

MYRTUE MEDICAL CENTER
Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Revenue:		
Net patient service revenue	\$ 30,755,140	\$ 29,022,979
Other revenue	<u>249,244</u>	<u>255,939</u>
Total revenue	31,004,384	29,278,918
Expenses:		
Salaries and wages	12,899,426	12,179,005
Employee benefits	4,007,279	3,159,340
Professional fees	5,456,779	5,303,012
Supplies and other expenses	7,132,757	6,997,410
Provision for depreciation	<u>1,654,536</u>	<u>1,603,489</u>
Total expenses	<u>31,150,777</u>	<u>29,242,256</u>
Operating Income (Loss)	(146,393)	36,662
Non-Operating Revenues (Expenses):		
Investment income	73,970	138,414
Noncapital grants and contributions	35,699	33,982
County taxes	697,399	608,874
Behavioral health county revenue	30,000	30,000
Other restricted donations, net	3,838	22,759
Interest expense	(62,732)	(62,490)
Contracted ambulance service	(65,328)	(65,328)
Gain (loss) on disposal of assets	(15,172)	24,000
Clinic buildings revenue, net	<u>25,970</u>	<u>21,871</u>
Non-operating revenues, net	<u>723,644</u>	<u>752,082</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	577,251	788,744
Capital Grants and Contributions:		
Wellness center	566,351	630,080
Other	<u>167,500</u>	<u>74,634</u>
Increase in Net Assets	1,311,102	1,493,458
Net Assets Beginning of Year	<u>37,501,419</u>	<u>36,007,961</u>
Net Assets End of Year	<u>\$ 38,812,521</u>	<u>\$ 37,501,419</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Statements of Cash Flows
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 29,916,482	\$ 28,453,422
Cash paid to suppliers	(16,401,098)	(15,832,850)
Cash paid to employees	(12,927,842)	(12,084,274)
Other revenue	<u>249,244</u>	<u>255,939</u>
Net cash provided by operating activities	836,786	792,237
Cash flows from non-capital financing activities:		
County tax revenue	727,399	638,874
Contracted ambulance service	(65,328)	(65,328)
Noncapital grants and contributions	<u>48,199</u>	<u>68,982</u>
Net cash provided by non-capital financing activities	710,270	642,528
Cash flows from capital and related financing activities:		
Capital expenditures	(10,876,984)	(3,486,320)
Proceeds from disposal of assets	2,958	23,316
Proceeds from issuance of debt	3,264,390	--
Payments on long-term debt	(166,800)	(256,860)
Debt issue costs incurred	(114,930)	--
Capital grants and contributions	733,851	704,714
Interest paid	<u>(87,091)</u>	<u>(62,490)</u>
Net cash used in capital and related financing activities	(7,244,606)	(3,077,640)
Cash flows from investing activities:		
Investment income	54,962	145,774
Change in designated and restricted assets	3,497,223	3,075,806
Clinic buildings revenue, net	25,970	21,871
Change in notes receivable	(374)	(10,175)
Change in other assets	<u>(41,644)</u>	<u>(43,572)</u>
Net cash provided by investing activities	3,536,137	3,189,704
Net increase (decrease) in cash and cash equivalents	(2,161,413)	1,546,829
Cash and cash equivalents, beginning of year	<u>3,716,262</u>	<u>2,169,433</u>
Cash and cash equivalents, end of year	<u>\$ 1,554,849</u>	<u>\$ 3,716,262</u>

(continued next page)

MYRTUE MEDICAL CENTER
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 100,410	\$ 2,266,625
Cash in designated and restricted assets	<u>1,454,439</u>	<u>1,449,637</u>
Total cash and cash equivalents	<u>\$ 1,554,849</u>	<u>\$ 3,716,262</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(146,393)	\$ 36,662
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Provision for depreciation	1,654,536	1,603,489
Amortization	7,232	15,555
Change in assets and liabilities		
Accounts receivable	(637,126)	(338,508)
Related organization receivable	(95,917)	(116,306)
Inventory	30,210	(51,512)
Prepaid expense	(24,060)	(81,613)
Accounts payable, trade	99,009	(76,794)
Accrued employee compensation	(28,416)	94,731
Estimated third-party payor settlements	(160,000)	(176,000)
Payroll taxes withheld and accrued	151,675	5,072
Other current liabilities	27,568	(67,490)
Deferred revenue	<u>(41,532)</u>	<u>(55,049)</u>
Total adjustments	<u>983,179</u>	<u>755,575</u>
Net cash provided by operating activities	<u>\$ 836,786</u>	<u>\$ 792,237</u>

Non-Cash Transaction:

The Hospital also incurred the following non-cash transaction in addition to the transactions reflected in the reconciliation of operating income (loss) to net cash provided by operating activities:

	<u>2012</u>	<u>2011</u>
Net book value of equipment traded	<u>\$ 7,465</u>	<u>\$ --</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Myrtue Medical Center (the Medical Center) is a county hospital with related healthcare ancillary, outpatient, and physician clinic services. The Medical Center is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Medical Center has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Medical Center's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Medical Center.

The Medical Center has one component unit, Shelby County Medical Corporation (SCMC). SCMC contracts physician services to the Medical Center's physician clinics, and virtually all of its transactions are with the Medical Center. It has limited net assets and activity other than between SCMC and the Medical Center. Therefore, combining the component unit would not have a material effect on these financial statements (See Note K).

The following summary shows the net increase or (decrease) blending the component would have on the assets, liabilities, net assets, revenues, and expenses of Myrtue Medical Center as of and for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Assets would increase by	\$ <u>199,125</u>	\$ <u>167,747</u>
Liabilities would increase by	\$ <u>134,294</u>	\$ <u>177,867</u>
Net Assets would increase (decrease) by	\$ <u>64,831</u>	\$(<u>10,120</u>)
Revenues would decrease by	\$(<u>46,200</u>)	\$(<u>23,241</u>)
Expenses would decrease by	\$(<u>121,151</u>)	\$(<u>34,380</u>)

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

2. Enterprise Fund Accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Medical Center's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Medical Center capitalized \$24,359 of interest cost in 2012 (\$ - 0 - in 2011).

9. Compensated Absences

Medical Center employees earn paid time off (PTO) hours at varying rates depending on years of service. PTO time accumulates to a maximum of 360 hours. Any excess over 360 hours is lost. Employees may elect to receive salary in lieu of PTO for hours accumulated in excess of 160, at the end of each quarter. The computed amount of PTO benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Medical Center on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Medical Center has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Medical Center Board of Trustees based on the facts regarding each specific situation.

16. Net Assets

Net assets of the Medical Center are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Medical Center. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service (net of discounts for uninsured patients where appropriate) depending on the timing of the charity determination.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediaries. The Medical Center's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2010. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Expendable restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Healthcare education loans	\$ 93,785	\$ 86,967
Wellness center scholarships	16,870	19,850
Family planning initiative	312,520	354,052
Debt service	<u>423,824</u>	<u>--</u>
	<u>\$ 846,999</u>	<u>\$ 460,869</u>

The Medical Center has no nonexpendable restricted net assets or endowments at June 30, 2012 or 2011.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2012</u>	<u>2011</u>
Purchase of property and equipment	\$ 733,851	\$ 704,714
Education loans forgiven	5,682	12,091
Wellness center scholarships	2,980	150
Family planning initiative	<u>41,532</u>	<u>169,755</u>
	<u>\$ 784,045</u>	<u>\$ 886,710</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$9,911,176 (\$15,273,021 in 2011) of unrestricted net assets, \$4,417,165 (\$8,285,370 in 2011) has been designated by the Medical Center's Board of Trustees for purposes identified in the following schedule.

	<u>2012</u>	<u>2011</u>
Capital acquisitions and related debt	\$ 722,729	\$ 6,762,181
Employee health insurance	1,092,756	1,523,189
Operating costs	<u>2,601,680</u>	<u>--</u>
	<u>\$ 4,417,165</u>	<u>\$ 8,285,370</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Medical Center's deposits at June 30, 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Medical Center is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Medical Center is allowed to retain any donated equity securities and maintain them as a part of their invested funds. At June 30, 2012 the Medical Center held \$266,656 (\$247,648 in 2011) of capital stock, none of which is covered by any form of insurance against loss.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2012</u>	<u>2011</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 591,737	\$ 1,019,266
Certificates of deposit	3,450,000	6,950,000
Equity securities	266,656	247,648
Interest receivable	5,023	16,562
Due from restricted fund	<u>103,749</u>	<u>51,894</u>
	<u>\$ 4,417,165</u>	<u>\$ 8,285,370</u>
Restricted Assets:		
Cash and cash equivalents	\$ 862,702	\$ 430,371
Education loans	88,046	82,392
Due to board designated fund	<u>(103,749)</u>	<u>(51,894)</u>
	<u>\$ 846,999</u>	<u>\$ 460,869</u>

The Medical Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Medical Center.

NOTE F - FAIR VALUE MEASUREMENTS

The Medical Center's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Medical Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 inputs were available for all investments at June 30, 2012 and 2011. The Medical Center's investments included equity securities valued at \$266,656 (\$247,648 in 2011) at year end.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Receivable from:		
Patients	\$ 4,127,865	\$ 3,487,890
Medicare	2,649,829	2,456,559
Medicaid	1,342,622	781,796
Wellmark	1,376,692	1,472,939
Other commercial insurance carriers	987,683	1,038,127
Others	<u>165,321</u>	<u>116,899</u>
	10,650,012	9,354,210
Less allowances for doubtful accounts and contractual adjustments	<u>3,296,000</u>	<u>2,640,000</u>
	<u>\$ 7,354,012</u>	<u>\$ 6,714,210</u>

NOTE H - CAPITAL ASSETS

Medical Center capital assets, additions, disposals and balances for the years ended June 30, 2012 and 2011 were as follows:

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 491,897	\$ --	\$ --	\$ 491,897
Buildings	26,418,103	31,000	--	26,449,103
Fixed Equipment	3,782,472	8,657	89,804	3,701,325
Major Movable Equipment	<u>10,835,211</u>	<u>744,199</u>	<u>1,839,191</u>	<u>9,740,219</u>
	41,527,683	783,856	1,928,995	40,382,544
<u>Depreciation</u>				
Land Improvements	391,012	13,597	--	404,609
Buildings	7,913,938	915,924	--	8,829,862
Fixed Equipment	3,251,199	121,768	89,804	3,283,163
Major Movable Equipment	<u>8,582,203</u>	<u>603,247</u>	<u>1,813,596</u>	<u>7,371,854</u>
Total Depreciation	<u>20,138,352</u>	<u>1,654,536</u>	<u>1,903,400</u>	<u>19,889,488</u>
Depreciable Capital Assets, Net	<u>\$ 21,389,331</u>	<u>\$ (870,680)</u>	<u>\$ 25,595</u>	<u>\$ 20,493,056</u>
Non-depreciable Capital Assets:				
Land	\$ 1,442,348	\$ --	\$ --	\$ 1,442,348
Construction in progress	<u>1,608,980</u>	<u>11,086,383</u>	<u>503,918</u>	<u>12,191,445</u>
	<u>\$ 3,051,328</u>	<u>\$ 11,086,383</u>	<u>\$ 503,918</u>	<u>\$ 13,633,793</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Land Improvements	\$ 478,123	\$ 13,774	\$ --	\$ 491,897
Buildings	14,365,831	12,052,272	--	26,418,103
Fixed Equipment	3,461,124	321,348	--	3,782,472
Major Movable Equipment	<u>10,018,344</u>	<u>874,000</u>	<u>57,133</u>	<u>10,835,211</u>
	28,323,422	13,261,394	57,133	41,527,683
<u>Depreciation</u>				
Land Improvements	375,993	15,019	--	391,012
Buildings	7,074,470	839,468	--	7,913,938
Fixed Equipment	3,179,596	71,603	--	3,251,199
Major Movable Equipment	<u>7,962,621</u>	<u>677,399</u>	<u>57,817</u>	<u>8,582,203</u>
Total Depreciation	<u>18,592,680</u>	<u>1,603,489</u>	<u>57,817</u>	<u>20,138,352</u>
Depreciable Capital Assets, Net	<u>\$ 9,730,742</u>	<u>\$ 11,657,905</u>	<u>\$ (684)</u>	<u>\$ 21,389,331</u>
Non-depreciable Capital Assets:				
Land	\$ 1,430,076	\$ 12,272	\$ --	\$ 1,442,348
Construction in progress	<u>12,220,377</u>	<u>712,705</u>	<u>11,324,102</u>	<u>1,608,980</u>
	<u>\$ 13,650,453</u>	<u>\$ 724,977</u>	<u>\$ 11,324,102</u>	<u>\$ 3,051,328</u>

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Medical Center's non-current liabilities for the years ended June 30, 2012 and 2011 follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>	<u>Current Portion</u>
Long-Term Debt:					
2010 Capital loan notes	\$ 2,263,700	\$ --	\$ 166,800	\$ 2,096,900	\$ 2,096,900
2011 Capital loan notes	--	3,264,390	--	3,264,390	54,743
Other Liabilities:					
Deferred revenue	<u>354,052</u>	<u>60,457</u>	<u>101,989</u>	<u>312,520</u>	<u>146,948</u>
Total Non-Current Liabilities	<u>\$ 2,617,752</u>	<u>\$ 3,324,847</u>	<u>\$ 268,789</u>	<u>\$ 5,673,810</u>	<u>\$ 2,298,591</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE I - NON-CURRENT LIABILITIES - Continued

	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>	<u>Current Portion</u>
Long-Term Debt:					
2010 Capital loan					
notes	\$2,430,500	\$ --	\$ 166,800	\$ 2,263,700	\$ 166,800
Capital lease	90,060	--	90,060	--	--
Other Liabilities:					
Deferred revenue	<u>409,101</u>	<u>161,896</u>	<u>216,945</u>	<u>354,052</u>	<u>136,996</u>
Total Non-Current Liabilities	<u>\$2,929,661</u>	<u>\$ 161,896</u>	<u>\$ 473,805</u>	<u>\$ 2,617,752</u>	<u>\$ 303,796</u>

2010 Capital Loan Notes

The Medical Center issued \$2,500,000 of Hospital Revenue Capital Loan Notes, Series 2010 to pay a portion of the costs of constructing and equipping a new Wellness Center. The notes were to mature in monthly installments including principal of \$13,900 and monthly interest on the remaining balance, beginning in March, 2010, through February, 2024. The interest rate for the first three years was to be 2.85%, with the rate changing on February 1, 2013 and every three years thereafter based on the three year Federal Home Loan Bank Des Moines fixed rate advance rate plus 1.375% (subject to a 350 basis point lifetime cap and a 175 basis point re-pricing cap, with a lifetime floor of 2.85%). The Medical Center pledged its future revenues (net of expenses) to repay the notes.

Under terms of the loan agreement, the Medical Center is required to make timely note payments. The loan agreement also places limits on the incurrence of additional borrowings and requires that the Medical Center satisfy certain measures of financial performance as long as the notes are outstanding. The notes may be called for redemption by the Medical Center by giving 30 days notice of redemption to the holder. Clauses in the 2011 Loan Note documents require that all the outstanding 2010 Loan Notes be paid off in May, 2012, therefore, the entire amount is shown as current on the schedule above.

2011 Capital Loan Notes

In December, 2011, the Medical Center issued \$10,000,000 of Hospital Revenue Capital Loan Notes. According to the Loan Note documents, the Medical Center will draw the proceeds of the Notes as construction progresses, up to an amount not exceeding \$10,000,000. The Medical Center had drawn \$3,264,390 of the proceeds by June 30, 2012. Under terms of the Notes, monthly interest only payments are due through May, 2013. Combined principal and interest payments will be made beginning in June, 2013 through May 1, 2025. The original interest rate on the outstanding balance of the Notes is 3.85% with an adjustment on June 1, 2019 based on the seven year Federal Home Loan Bank Des Moines fixed rate advance rate, plus 1.375%. However, the rate will not exceed 6.85% or be below 3.85%.

The Notes are payable only from the revenues of the Medical Center, and are secured by a first lien on its net revenues. The Notes are not general obligations of the county and shall not be paid in any manner by taxation.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE I - NON-CURRENT LIABILITIES - Continued

Annual Debt Service

The annual debt service on the Notes is expected to require less than 42% of the cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$253,900 and \$2,495,200, respectively.

Deferred Revenue

Deferred revenue is to be used for future unreimbursed costs incurred in the Iowa Family Planning Initiative program. Following is a summary of the amounts at June 30:

	<u>2012</u>	<u>2011</u>
Iowa Family Planning Initiative Grant proceeds	\$ 35,007	\$ 136,996
Iowa Family Planning Initiative revenues	<u>277,513</u>	<u>217,056</u>
	<u>\$ 312,520</u>	<u>\$ 354,052</u>

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,151,643	\$ 178,608	\$ 2,330,251
2014	670,778	110,659	781,437
2015	697,063	84,328	781,391
2016	724,379	56,965	781,344
2017	752,765	28,530	781,295
2018	<u>364,662</u>	<u>7,020</u>	<u>371,682</u>
	<u>\$ 5,361,290</u>	<u>\$ 466,110</u>	<u>\$ 5,827,400</u>

NOTE J - PENSION AND RETIREMENT BENEFITS

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% (5.78% beginning July 1, 2012) of their annual salary and the Medical Center is required to contribute 8.07% (8.67% beginning July 1, 2012) of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were approximately \$999,300, \$819,000, and \$729,000, respectively, equal to the required contributions for each year.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE K - RELATED ORGANIZATIONS

Shelby County Medical Corporation

Shelby County Medical Corporation (SCMC) employs the physicians who staff the Medical Center owned Rural Health Clinics. The Medical Center purchases the physician services at a set cost per Relative Value Unit (RVU). SCMC is paid at an interim monthly rate, with a net settlement determined at year end, based on the total RVUs provided. The Medical Center provides limited administrative services to assist SCMC in its operations.

Below, and in the following section is information about transactions between the Medical Center and SCMC:

	<u>2012</u>	<u>2011</u>
Purchase of services from SCMC	\$ <u>2,692,170</u>	\$ <u>2,626,739</u>
Sale of services to SCMC	\$ <u>48,000</u>	\$ <u>24,000</u>
Amount receivable from SCMC at year end	\$ <u>213,934</u>	\$ <u>121,331</u>

Health Partners of Southwest Iowa

The Medical Center has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Medical Center's transactions with HPSI and year end balances involving the 28E organization:

	<u>2012</u>	<u>2011</u>
Services purchased from HPSI	\$ <u>80,954</u>	\$ <u>78,872</u>
Services sold to HPSI	\$ <u>65,458</u>	\$ <u>65,533</u>
Amount due from (to) HPSI	\$ <u>4,431</u>	\$ <u>1,117</u>
Member share of net assets	\$ <u>427,814</u>	\$ <u>387,037</u>

The member share of net assets is included in other assets and the amounts due from (to) HPSI are included in other receivables and accounts payable on the balance sheet. The Medical Center has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Medical Center and the office of the State Auditor.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE L - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission

The Medical Center has committed to participate in the support of the Shelby County Ambulance Commission along with the City of Harlan. The Commission is a private corporation which provides ambulance services to Shelby County and surrounding communities. The Medical Center has agreed to provide financial support totaling \$65,300 in 2012-13.

Self Funded Health/Disability Insurance

The Medical Center has established an employee health and disability insurance fund. Under the self-insured plan, the Medical Center pays health claims from this fund up to maximum limits and carries stop loss insurance for health claims in excess of the limits. In addition, the Medical Center pays sixty percent of a disabled employee's salary for up to six months, and carries long-term disability insurance for claims longer than a six month period. At June 30, 2012 and 2011 the Medical Center had accumulated funds in excess of actual claims paid of approximately \$1,093,000 and \$1,523,000, respectively. These funds, shown under designated and restricted assets, are designated by the Board to pay claims as they are filed in the future. An allowance for unpaid claims at June 30, 2012 of approximately \$136,200 (\$154,500 in 2011) is included in current liabilities.

Notes Receivable

The Medical Center has provided financial aid to several medical occupation students enabling them to complete their education. In exchange for the aid, the Medical Center receives promissory notes and the commitment of the students to pursue their medical occupation in the Harlan area for a specified period of time upon graduation from the programs. The promissory notes contain clauses indicating they will be forgiven on a pro rata basis as the commitments are fulfilled. If the students fail to fulfill the commitments, the notes are to be repaid, including interest.

Risk Management

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Myrtue Medical Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during any of the past three fiscal years.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Medical Center offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Medical Center employees, and the retiree must pay a health insurance premium equal to that charged for current employees. There are 222 active employees and 3 retirees currently covered by the plan.

Potential for Liability: A review of the Medical Center's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2012 and 2011

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Construction Project

At June 30, 2012, the Medical Center had incurred approximately \$12,306,000 of costs related to a major construction and remodeling project and several other minor projects. The total estimated cost of the projects is approximately \$16,000,000 with funding to be provided through the issue of \$10,000,000 of revenue bonds and \$6,000,000 of internally generated funds.

Subsequent Events

The Medical Center has evaluated all subsequent events through October 12, 2012, the date the financial statements were available to be issued.

NOTE M - ACCOUNTING CHANGE

The Medical Center has elected to change the method of accounting for revenues generated through its Iowa Family Planning Initiative Program. For the year ended June 30, 2011 and prior, revenue generated in excess of expenses related to the program was recognized as revenue in the year services were provided. Under federal program guidelines, to the extent that revenues generated from grants and other payors exceed costs incurred in any given year, the excess revenue is to be deferred to future years, when program costs will exceed revenues generated. The change in accounting will reduce revenues and net assets in years previously reported and result in increased deferred revenue on the balance sheet in each year reported. The following is a summary of the effect of the change on the individual items in the financial statements for the years ended June 30:

<u>Financial Statement Amount</u>	<u>2012</u>		<u>2011</u>	
	<u>Reporting Method</u>		<u>Reporting Method</u>	
	<u>Current</u>	<u>Previous</u>	<u>Current</u>	<u>Previous</u>
Deferred Revenue	\$ 312,520	\$ 146,948	\$ 354,052	\$ 248,937
Total Liabilities	\$ 10,150,658	\$ 9,985,086	\$ 6,483,551	\$ 6,378,436
Total Revenue	\$ 31,004,384	\$ 31,064,841	\$ 29,278,918	\$ 29,308,565
Operating Income (Loss)	\$ (146,393)	\$ (85,936)	\$ 36,662	\$ 66,309
Excess of Revenues Over Expenses Before Capital Grants and Contributions	\$ 577,251	\$ 637,708	\$ 788,744	\$ 818,391
Increase in Net Assets	\$ 1,311,102	\$ 1,371,559	\$ 1,493,458	\$ 1,523,105
Net Assets Beginning of Year	37,501,419	37,606,534	36,007,961	36,083,429
Net Assets End of Year	\$ 38,812,521	\$ 38,978,093	\$ 37,501,419	\$ 37,606,534

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Budgetary Comparison Schedule
Year Ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 727,399	\$ --	\$ 727,399
Other revenues	30,886,140	848,340	31,734,480
Transfers in (out)	<u>420,678</u>	<u>(420,678)</u>	<u>--</u>
	32,034,217	427,662	32,461,879
Expenses	<u>31,150,777</u>	<u>--</u>	<u>31,150,777</u>
Net	883,440	427,662	1,311,102
Balance beginning of year	<u>37,394,602</u>	<u>106,817</u>	<u>37,501,419</u>
Balance end of year	<u>\$ 38,278,042</u>	<u>\$ 534,479</u>	<u>\$ 38,812,521</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 727,399	\$ --	\$ 727,399	\$ 678,523
Other revenues	<u>31,734,480</u>	<u>128,060</u>	<u>31,862,540</u>	<u>33,084,048</u>
	32,461,879	128,060	32,589,939	33,762,571
Expenses	<u>31,150,777</u>	<u>128,060</u>	<u>31,278,837</u>	<u>33,495,334</u>
Net	1,311,102	--	1,311,102	267,237
Balance beginning of year	<u>37,501,419</u>	<u>(652,747)</u>	<u>36,848,672</u>	<u>36,848,672</u>
Balance end of year	<u>\$ 38,812,521</u>	<u>\$ (652,747)</u>	<u>\$ 38,159,774</u>	<u>\$ 37,115,909</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 3,222,906	30.3%	\$ 2,570,244	27.5%
31 - 90	2,165,567	20.3	1,977,442	21.1
91 - 180	1,528,576	14.3	979,495	10.5
181 - 365	1,212,062	11.4	732,858	7.8
Over 365	<u>2,520,901</u>	<u>23.7</u>	<u>3,094,171</u>	<u>33.1</u>
	10,650,012	<u>100.0%</u>	9,354,210	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	1,618,000		1,068,000	
Allowance for contractual adjustments	<u>1,678,000</u>		<u>1,572,000</u>	
	<u>\$ 7,354,012</u>		<u>\$ 6,714,210</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Balance, beginning	\$1,068,000	\$1,040,000
Provision for bad debts	1,259,673	844,141
Recoveries of accounts previously written off	<u>283,978</u>	<u>263,867</u>
	2,611,651	2,148,008
Accounts written off	<u>993,651</u>	<u>1,080,008</u>
Balance, ending	<u>\$1,618,000</u>	<u>\$1,068,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Patient Service Revenue
Year ended June 30,

	2012	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,448,768	\$ 469,443
Nursery	134,703	--
	<u>1,583,471</u>	<u>469,443</u>
<u>Other Nursing Services</u>		
Observation beds	16,913	--
Clinic room	--	--
Operating and recovery room	342,765	8,317
Delivery and labor room	292,098	--
Emergency service	44,648	--
Medical supplies	222,562	21,485
Intravenous therapy	80,561	23,658
	<u>999,547</u>	<u>53,460</u>
<u>Other Professional Services</u>		
Emergency room physicians	--	--
Laboratory	581,182	158,496
Electrocardiology	29,397	3,321
Cardiac rehabilitation	--	--
Radiology	90,014	27,398
CT scanning	311,558	43,475
Nuclear imaging	7,991	1,032
Ultrasound	128,997	13,562
MRI	69,296	10,873
Pharmacy	917,793	540,158
Chemotherapy	4,532	5,558
Anesthesia	199,890	5,220
Respiratory therapy	405,240	177,029
Physical therapy	120,468	316,600
Occupational therapy	54,314	195,491
Speech therapy	27,445	39,207
Home health	--	--
Hospice	--	--
Family planning	--	--
Public health	--	--
Wellness center	--	--
Occupational health outreach	--	--
Other	--	--
	<u>2,948,117</u>	<u>1,537,420</u>

(continued next page)

2012			2011
Outpatient	Physician Services	Total	Total
\$ 457,460	\$ --	\$ 2,375,671	\$ 2,449,892
--	--	134,703	109,710
457,460	--	2,510,374	2,559,602
418,729	--	435,642	337,016
477,435	--	477,435	420,491
2,269,802	--	2,620,884	2,439,781
110,608	--	402,706	318,929
1,725,519	--	1,770,167	1,741,513
545,671	50,648	840,366	938,198
1,471	--	105,690	109,288
5,549,235	50,648	6,652,890	6,305,216
--	824,493	824,493	935,754
2,730,839	3,190,983	6,661,500	6,502,263
365,223	--	397,941	358,025
126,054	--	126,054	155,894
1,456,547	601,888	2,175,847	2,055,130
3,067,626	--	3,422,659	3,388,084
158,823	--	167,846	191,763
1,377,069	--	1,519,628	1,346,454
1,220,563	--	1,300,732	1,155,058
901,425	488,813	2,848,189	2,786,755
1,870,441	--	1,880,531	1,532,732
518,852	--	723,962	698,937
518,717	--	1,100,986	1,084,305
2,143,888	--	2,580,956	1,971,264
305,902	--	555,707	413,769
135,553	--	202,205	119,410
937,179	--	937,179	813,700
947,097	--	947,097	836,599
344,782	--	344,782	398,467
426,057	--	426,057	452,685
665,693	--	665,693	616,108
230,755	--	230,755	230,967
839	--	839	477
20,449,924	5,106,177	30,041,638	28,044,600

MYRTUE MEDICAL CENTER
Patient Service Revenue - Continued
Year ended June 30,

	<u>2012</u>	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Behavioral Health</u>	\$ 1,708	\$ --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
Earling	--	--
	<u>--</u>	<u>--</u>
Total All Services	<u>\$ 5,532,843</u>	<u>\$ 2,060,323</u>

See Independent Auditor's Report.

<u>2012</u>			<u>2011</u>
<u>Outpatient</u>	<u>Physician Services</u>	<u>Total</u>	<u>Total</u>
\$ 791,658	\$ --	\$ 793,366	\$ 564,071
--	6,189,659	6,189,659	5,780,620
--	314,957	314,957	325,136
--	232,276	232,276	212,934
--	222,506	222,506	210,917
--	133,168	133,168	15,240
--	<u>7,092,566</u>	<u>7,092,566</u>	<u>6,544,847</u>
<u>\$ 27,248,277</u>	<u>\$ 12,249,391</u>	<u>\$ 47,090,834</u>	<u>\$ 44,018,336</u>

MYRTUE MEDICAL CENTER
Revenue and Related Adjustments
Year ended June 30,

	<u>2012</u>	<u>2011</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 47,090,834	\$ 44,018,336
Contractual adjustment	(14,534,791)	(13,476,513)
Provision for bad debts	(1,259,673)	(844,141)
Charity Care	(482,146)	(640,990)
Administrative adjustments	<u>(59,084)</u>	<u>(33,713)</u>
	<u>\$ 30,755,140</u>	<u>\$ 29,022,979</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 101,206	\$ 95,424
Other dietary services	23,478	21,463
Rental income	53,662	49,583
Other	<u>70,898</u>	<u>89,469</u>
	<u>\$ 249,244</u>	<u>\$ 255,939</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Schedule of Expenses
Year ended June 30,

	2012		
	<u>Salaries and Wages</u>	<u>Employee Benefits</u>	<u>Supplies and Other Expenses</u>
<u>Daily Patient Services</u>			
Nursing service	\$ 2,415,292	\$ 821,598	\$ 220,858
<u>Other Nursing Services</u>			
Clinic room	370,940	110,168	25,085
Operating and recovery room	370,344	96,107	142,576
Delivery and labor room	231,259	38,108	20,948
Emergency service	301,614	97,181	34,827
Medical supplies	94,246	31,079	449,813
Intravenous therapy	--	--	76,511
Total other nursing services	<u>1,368,403</u>	<u>372,643</u>	<u>749,760</u>
<u>Other Professional Services</u>			
Emergency room physicians	46,351	--	--
Laboratory	663,208	181,971	523,362
Electrocardiology	16,920	1,483	13,810
Cardiac rehabilitation	44,346	16,859	2,114
Radiology	505,795	154,834	416,582
CT scanning	--	--	123,738
Nuclear imaging	--	--	9,610
MRI	--	--	151,081
Pharmacy	268,620	76,785	555,939
Chemotherapy	29,317	3,548	794,644
Anesthesia	87,970	19,364	17,676
Respiratory therapy	171,349	48,172	144,177
Physical therapy	--	--	38,989
Occupational therapy	--	--	--
Speech therapy	--	--	--
Home health	437,452	109,372	64,341
Public health	322,754	115,900	118,230
Hospice	361,559	98,302	98,790
Family planning	141,541	48,585	95,890
Occupational health outreach	76,191	25,265	36,921
Wellness center	369,690	120,084	230,430
Medical records	<u>297,763</u>	<u>93,622</u>	<u>137,583</u>
Total other professional services	<u>3,840,826</u>	<u>1,114,146</u>	<u>3,573,907</u>

(continued next page)

<u>2012</u>			<u>2011</u>
<u>Professional Fees</u>	<u>Depreciation Expense</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ 1,724	\$ 53,934	\$ 3,513,406	\$ 3,268,716
78,344	6,408	590,945	560,898
9,902	80,469	699,398	702,854
--	18,248	308,563	268,883
--	11,927	445,549	381,255
--	232	575,370	601,432
--	--	76,511	83,596
<u>88,246</u>	<u>117,284</u>	<u>2,696,336</u>	<u>2,598,918</u>
493,184	--	539,535	527,559
124,609	30,894	1,524,044	1,561,252
--	--	32,213	38,964
--	500	63,819	70,781
--	96,403	1,173,614	1,081,054
--	--	123,738	191,313
--	--	9,610	16,697
--	--	151,081	139,000
--	5,792	907,136	852,504
--	--	827,509	737,242
325,813	22,547	473,370	492,492
--	16,594	380,292	369,366
912,215	11,601	962,805	796,913
189,312	--	189,312	155,480
138,118	--	138,118	107,494
83,632	20,890	715,687	728,148
--	11,901	568,785	611,992
--	19,489	578,140	533,277
57,823	--	343,839	398,469
3,732	--	142,109	107,881
--	27,346	747,550	673,934
--	2,196	531,164	539,276
<u>2,328,438</u>	<u>266,153</u>	<u>11,123,470</u>	<u>10,731,088</u>

MYRTUE MEDICAL CENTER
Schedule of Expenses - continued
Year ended June 30,

	2012		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Behavioral Health</u>	\$ 363,979	\$ 109,088	\$ 74,277
<u>Physician Clinic Services</u>			
Harlan	2,072,917	506,221	656,835
Avoca	195,388	47,201	42,951
Elk Horn	180,642	53,561	38,411
Shelby	160,337	34,465	59,787
Earling	128,508	47,863	34,594
Total physician clinic services	2,737,792	689,311	832,578
<u>General Services</u>			
Dietary	441,214	163,972	284,821
Plant engineering	252,393	93,480	489,401
Housekeeping	229,041	131,651	83,463
Laundry and linen	32,002	11,452	104,650
Total general services	954,650	400,555	962,335
<u>Fiscal and Administrative</u>	1,218,484	499,938	719,042
<u>General Depreciation</u>	--	--	--
Total all departments	<u>\$ 12,899,426</u>	<u>\$ 4,007,279</u>	<u>\$ 7,132,757</u>

See Independent Auditor's Report.

2012			2011
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses
\$ --	\$ 1,638	\$ 548,982	\$ 468,503
2,598,060	34,146	5,868,179	5,588,138
64,609	2,745	352,894	348,261
37,580	1,997	312,191	282,993
37,720	2,481	294,790	281,837
18,618	--	229,583	28,233
<u>2,756,587</u>	<u>41,369</u>	<u>7,057,637</u>	<u>6,529,462</u>
--	4,153	894,160	838,093
--	16,285	851,559	797,520
--	--	444,155	399,785
--	--	148,104	139,590
<u>--</u>	<u>20,438</u>	<u>2,337,978</u>	<u>2,174,988</u>
281,784	92,894	2,812,142	2,532,745
<u>--</u>	<u>1,060,826</u>	<u>1,060,826</u>	<u>937,836</u>
<u>\$ 5,456,779</u>	<u>\$ 1,654,536</u>	<u>\$ 31,150,777</u>	<u>\$ 29,242,256</u>

MYRTUE MEDICAL CENTER
Comparative Statistics
Year ended June 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Acute Care:					
Admissions	732	912	968	1,068	1,169
Discharges	732	913	961	1,075	1,163
Patient days	2,458	2,777	2,929	3,106	3,411
Average length of stay	3.4	3.0	3.0	2.9	2.9
Average occupied beds	6.7	7.6	8.0	8.5	9.3
Swing Bed:					
Admissions	229	278	282	275	362
Discharges	229	277	284	275	363
Patient days	1,815	1,931	1,994	2,295	2,810
Combined Average Occupied Beds	11.7	12.9	13.5	14.8	17.0
Nursery Days	230	209	249	249	262
Outpatient Visits	32,610	32,344	32,336	30,136	29,750
Physician Clinic Visits	38,122	39,242	33,128	34,799	37,902

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

We have audited the financial statements of Myrtue Medical Center as of and for the year ended June 30, 2012, and have issued our report thereon dated October 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Myrtue Medical Center is responsible for maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Myrtue Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Myrtue Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Medical Center's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Myrtue Medical Center

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 12-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Myrtue Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Myrtue Medical Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Medical Center's responses, we did not audit the Medical Center's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Myrtue Medical Center and other parties to whom the Medical Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kyhnn + Co. P.C.

Atlantic, Iowa
October 12, 2012

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2012

PART I - SIGNIFICANT DEFICIENCIES

12-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Medical Center. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Medical Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Medical Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

12-II-A Certified Budget: Medical Center expenditures during the year ended June 30, 2012 did not exceed amounts budgeted therefore.

12-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Veteran's Memorial Auditorium and Main Street Market	Employee recognition dinner	\$ 7,525

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

12-II-C Travel Expense: No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

12-II-D Business Transactions: During our audit, we noted no business transactions with Medical Center employees or officials.

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2012

PART II - REQUIRED STATUTORY REPORTING - Continued

12-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

12-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Medical Center's investment policy.

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